

ANNUAL REPORT

PUBLIC DEBT AMORTIZATION FUND

City of Milwaukee

For The Year Ended December 31, 2001

**Prepared By:
W. Martin Morics, C.P.A.
Comptroller and Secretary
Public Debt Commission**

PUBLIC DEBT COMMISSION

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**W. MARTIN MORICS, Comptroller and Secretary
Ex Officio**

**WAYNE F. WHITTOW, Treasurer and Treasurer
Ex Officio**

PUBLIC DEBT AMORTIZATION FUND

OVERVIEW OF 2001 OPERATIONS

PREFACE

The Public Debt Amortization Fund (PDAF) was created and is governed by virtue of Wisconsin State Statutes, Chapter 67.101. This statute requires that the Secretary of the Public Debt Commission shall keep a record of all proceedings related to the PDAF and that an Annual Report relating to transactions, investments, earnings and expenditures be made to the Common Council.

The intention of this Report is to meet that statutory requirement.

TOTAL FUND INVESTMENT PERFORMANCE

The PDAF, both its Segregated and Unsegregated portions did not meet the levels of earnings return experienced in 2000. The Governmental Accounting Standards Board (GASB) Statement No. 31, requires fair market valuation of investments as part of financial statement reporting. With the PDAF significantly invested in long-term United States Treasury Strip securities, susceptibility to interest rate movements cause significant market value changes. These market value movements, per GASB 31, are required to be incorporated within the PDAF earnings calculations. Declining interest rates during 2001 led to increased Treasury Strip fair market value, and thereby increased returns, for Treasury Strip investments. Investments held in the State of Wisconsin Local Government Investment Pool, or in City of Milwaukee Promissory Notes yielded lower returns as shorter-term rates declined.

The PDAF unsegregated portfolio returned a positive 7.90 percent for 2001. This compared to a 9.25 percent return in 2000. Unsegregated investment earnings (without cash) had a stand alone return of a plus 10.40 percent. The PDAF evaluates its performance against a "benchmark" of the Shearson Lehman Brothers Intermediate Index. This Index reports Treasury yields of an approximate four year duration. The Shearson Index for 2001 was a positive 7.98 percent.

OPERATIONS-UNSEGREGATED FUND BALANCE

The unsegregated portion of the PDAF produced earnings of \$3.16 million in 2001 compared to earnings of \$3.87 million in 2000. GASB 31 provided earnings equating to \$.5 million of this total \$3.16 million.

By Statute, the PDAF receives one-third of all earnings on City investments. City investments are generally short term, with resulting impact from GASB 31 less pronounced. However, interest rate fluctuations and balances available for investment also affect available returns. In 2001 contributions to the PDAF were \$4.04 million, a 27% decrease from 2000. This decrease was primarily attributable to declining rates of return during 2001. The levels of invested balances within the City's General Fund basically held at anticipated levels, with the effects of lower earning rates causing the revenue decline.

Payments in 2001 for the purchase and immediate cancellation of City of Milwaukee Bonds were made in the amount of \$7 million. In addition, during 2001, Fund payments for Special Assessment debt service of \$3.3 million were made from Segregated Fund Balance. Therefore, a total of \$10.3 million was made available to reduce the 2002 property tax levy for debt service, compared to \$14.04 million provided in 2000 to reduce the 2001 levy.

As a result of the above, the amount of Fund Balance available for future prepayment, or cancellation of City debt and other potential commitments, totaled \$43.65 million as of December 31, 2001, an increase of \$.2 million (+.4%) from the comparable 2000 year-end balance. The Public Debt Commission, on September 3, 1997, adopted a revised "Statement of Policy" with respect to the utilization of Fund Balance. The focus of utilization was now to be measured against the level of outstanding non-self supporting general obligation debt of the City. An unsegregated fund balance was to be maintained between a 15 percent minimum and a 20 percent maximum of such non-self supporting general obligation debt with a "target level" at the mid-point between these percentages. For 2001, the City's non-self supporting debt was \$421.7 million and the mid-point target level was \$73.8 million. The Unsegregated Fund Balance is currently below the Policy parameters at 10.35%.

An additional reserve fund measurement commonly utilized is the percentage of debt reserves to the governmental unit's outstanding general obligation indebtedness. At December 31, 2001, the PDAF Unsegregated Fund Balance stood at 6.8 percent of Milwaukee's outstanding general obligation debt, a decrease from the 7.2 percent of year-end 2000.

PUBLIC DEBT AMORTIZATION FUND

BALANCE SHEET

DECEMBER 31, 2001

ASSETS

Cash and Cash Equivalents (LGIP)	\$ 7,163,142
Investments (Note C)	65,519,404
Accrued Interest Receivable	<u>166,864</u>
TOTAL ASSETS	<u>\$ 72,849,410</u>

LIABILITIES

NONE	<u>NONE</u>
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FUND BALANCE

Segregated (Note D)	\$ 29,197,819
Unsegregated - Available for Retirement of Future Maturities	<u>43,651,591</u>
TOTAL FUND BALANCE	<u>\$ 72,849,410</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 72,849,410</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC DEBT AMORTIZATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2001

<u>REVENUES</u>	<u>UNSEGREGATED</u>	<u>SEGREGATED</u>	<u>TOTAL</u>
City of Milwaukee Proprietary Contributions			
Interest on Special Assessments	\$ 331,822	\$ —	\$ 331,822
One-third Interest on City Tax Certificates	1,358,408	—	1,358,408
One-third Interest on General Investments	2,352,166	—	2,352,166
Total City of Milwaukee Proprietary Contributions	<u>\$ 4,042,396</u>	<u>\$ —</u>	<u>\$ 4,042,396</u>
Earnings on Fund Investments	\$ 3,161,651		
Gain (Loss) on Sale of Investments	<u>—</u>		
Total Earnings on Fund Investments	3,161,651	1,943,884	5,105,535
TOTAL REVENUES	<u>\$ 7,204,047</u>	<u>\$ 1,943,884</u>	<u>\$ 9,147,931</u>
 <u>EXPENDITURES</u>			
Fund Administration Cost	\$ 1,920	\$ —	\$ 1,920
Payment of Special Assessment Related			
Debt Service from Segregated Assets	\$ —	\$ 3,304,095	\$ 3,304,095
Purchase and Immediate Cancellation			
of Series V Bonds	7,000,000	—	7,000,000
TOTAL EXPENDITURES	<u>\$ 7,001,920</u>	<u>\$ 3,304,095</u>	<u>\$ 10,306,015</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 202,127	\$(1,360,211)	\$(1,158,084)
 <u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfer From Special Assessment Fund (Note D)	\$ —	\$ —	\$ —
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER)			
EXPENDITURES AND OTHER SOURCES (USES)	\$ 202,127	\$(1,360,211)	\$(1,158,084)
FUND BALANCE JANUARY 1	43,449,464	30,558,030	74,007,494
FUND BALANCE DECEMBER 31	<u>\$ 43,651,591</u>	<u>\$ 29,197,819</u>	<u>\$ 72,849,410</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC DEBT AMORTIZATION FUND
STATEMENT OF CHANGES IN CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

CASH WAS PROVIDED BY:

Income from Investments (exclusive of GASB 31 non-cash impact)	\$ 2,473,017
City of Milwaukee Contributions	4,042,396
Net Adjustment - Accrual To Cash Basis	11,277
Decrease In Deferred Charges	1,684,060
Sale of Investments	<u>7,028,945</u>
	<u>\$ 15,239,695</u>

CASH WAS UTILIZED FOR:

Fund Administration Cost	\$ 1,920
Retirement of City of Milwaukee Existing Debt	3,304,095
Purchase & Immediate Cancellation of City Series V Bonds	7,000,000
Purchase of Investments	<u>3,615,000</u>
	<u>\$ 13,921,015</u>

INCREASE (DECREASE) IN CASH BALANCE	\$ 1,318,680
CASH AND CASH EQUIVALENTS - JANUARY 1, 2001	<u>5,844,462</u>
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2001	<u><u>\$ 7,163,142</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE

PUBLIC DEBT AMORTIZATION FUND

Notes to the Financial Statements

For the Year Ended December 31, 2001

A. Statutory Background:

Use of the Public Debt Amortization Fund for retirement of the public debt is governed by Section 67.101 of the Wisconsin Statutes. The Statutes provide that when total principal and accrued interest in the Public Debt Amortization Fund is substantially equal to the outstanding general obligation bonds and notes, the fund shall be applied to make annual interest and principal payments on that debt to maturity. Subsection (13) of the Statutes provides, in part, that: "The Public Debt Commission may, however, at any time, apply the fund, not to exceed in any one year, 40 percent of the balance in said fund on the preceding December 31 to acquire for cancellation general obligation bonds or notes prior to their maturity dates at prices not to exceed principal plus accrued interest to date of maturity, but the fund shall not be decreased below \$2,000,000 as a result of such purchases and cancellations." Principal sources of revenue are one-third of all interest on general city investments, allocated by Statute, and interest on the fund's own investments.

B. Basis of Accounting:

The financial statements of the Public Debt Amortization Fund are prepared on the accrual basis. Revenues are recorded when earned and expenses are recorded as incurred, without regard to the receipt or payment of cash or its equivalent.

C. Investments:

Beginning with the year ending December 31, 1997, Investments are reported at market value as required by Governmental Accounting Standards Board (GASB) Statement No. 31. Adjustments required to bring Investments from book to market value are reported as either increases or decreases to revenue in the operating statement as required by GASB 31.

D. Segregated Fund Balance:

The Milwaukee Common Council has adopted various resolutions over the past eleven years authorizing the operating transfer of amounts from the Special Assessment Fund to the Public Debt Amortization Fund. The adopted resolutions state: "That it is the intent of the Common Council that the funds transferred to the Public Debt Amortization Fund not be considered by the Commissioners of the Public Debt as part of the Amortization Fund's 'Unrestricted Fund Balance' for purposes of determining the annual amount provided for prepayment of debt."

These operating transfers (net of annual debt service payments), equate to the "Segregated" Fund Balance total of \$29,197,819.

PUBLIC DEBT AMORTIZATION FUND
SUMMARY OF SECURITIES OWNED
AT DECEMBER 31, 2001

<u>YEAR OF MATURITY</u>	<u>INVESTMENT TYPE</u>	<u>TOTAL PAR VALUE</u>
2002	UNITED STATES TREASURY STRIPS	\$ 9,215,000
2002	CITY OF MILWAUKEE NOTES	1,088,006
2003	UNITED STATES TREASURY STRIPS	6,308,000
2003	UNITED STATES TREASURY NOTES	5,000,000
2003	CITY OF MILWAUKEE NOTES	4,769,953
2004	UNITED STATES TREASURY STRIPS	9,250,000
2004	CITY OF MILWAUKEE NOTES	736,339
2005	UNITED STATES TREASURY STRIPS	9,797,000
2005	CITY OF MILWAUKEE NOTES	783,094
2006	UNITED STATES TREASURY STRIPS	9,834,000
2007	UNITED STATES TREASURY STRIPS	3,205,000
2008	UNITED STATES TREASURY STRIPS	3,253,000
2009	UNITED STATES TREASURY STRIPS	3,240,000
2010	UNITED STATES TREASURY STRIPS	2,376,000
2011	UNITED STATES TREASURY STRIPS	1,918,000
2012	UNITED STATES TREASURY STRIPS	1,679,000
2013	UNITED STATES TREASURY STRIPS	1,689,000
2014	UNITED STATES TREASURY STRIPS	1,231,000
2015	UNITED STATES TREASURY STRIPS	1,004,000
2016	UNITED STATES TREASURY STRIPS	885,000
2017	UNITED STATES TREASURY STRIPS	680,000
2018	UNITED STATES TREASURY STRIPS	420,000
2019	UNITED STATES TREASURY STRIPS	<u>245,000</u>

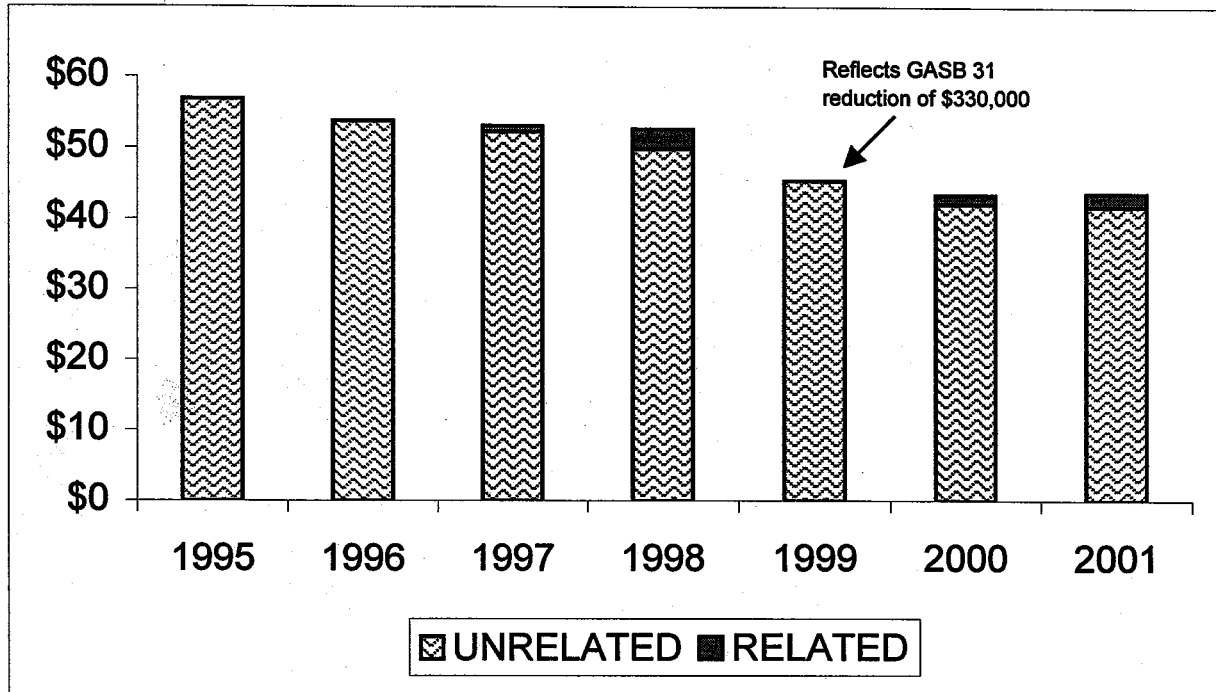
TOTAL - US TREASURY NOTES, STRIPS AND CITY NOTES (AT PAR)	\$ 78,606,392
LESS: UNMORTIZED PREMIUMS AND (DISCOUNTS) (NET)	(17,823,393)
TOTAL INVESTMENTS (BOOK VALUE)	\$ 60,782,999
ADD: GASB 31 ADJUSTMENT TO MARKET VALUE	<u>4,736,405</u>
TOTAL INVESTMENTS (MARKET VALUATION)	<u>\$ 65,519,404</u>

REF: PD-6124W.DOC

KNOWN AS SECURITIES OWNED 2001.XLS

**PUBLIC DEBT AMORTIZATION FUND
GASB 31* IMPACT ON UNSEGREGATED FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 1995 - 2001**

(IN MILLIONS OF DOLLARS)



	1995	1996	1997	1998	1999	2000	2001
UNRELATED TO GASB 31	\$56.890	\$53.797	\$52.280	\$49.884	\$45.384	\$42.121	\$41.804
RELATED TO GASB 31	0	0	0.826	2.782	-0.33	1.328	1.854
TOTAL	\$56.890	\$53.797	\$53.106	\$52.666	\$45.054	\$43.449	\$43.652

* GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 31 RELATES TO THE REPORTING OF INVESTMENTS AT MARKET VALUATION. STATEMENT NO. 31 WAS INITIALLY IMPLEMENTED WITH THE PUBLIC DEBT AMORTIZATION FUND ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1997.

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